



Highlights of [GAO-06-970](#), a report to the Committee on Homeland Security and Governmental Affairs, U.S. Senate and the Committee on Government Reform, House of Representatives

Why GAO Did This Study

The ability to produce the financial information needed to efficiently and effectively manage the day-to-day operations of the federal government and provide accountability to taxpayers continues to be a challenge for most federal agencies. To help address this challenge, the Federal Financial Management Improvement Act of 1996 (FFMIA) requires the Chief Financial Officers (CFO) Act agencies to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) federal accounting standards, and (3) the *U.S. Government Standard General Ledger* at the transaction level. FFMIA also requires GAO to report annually on the implementation of the act.

What GAO Recommends

GAO reaffirms its prior recommendations that OMB revise its guidance to require positive assurance regarding substantial compliance with FFMIA, and clarify the meaning of substantial compliance. As in the past, OMB did not agree with GAO's view on auditors providing positive assurance on FFMIA, but agreed to consider clarifying the definition of substantial compliance in future policy and guidance updates. GAO believes positive assurance is required by FFMIA and will continue to work with OMB on this issue.

www.gao.gov/cgi-bin/getrpt?GAO-06-970.

To view the full product, including the scope and methodology, click on the link above. For more information, contact McCoy Williams at (202) 512-9095 or williamsm1@gao.gov.

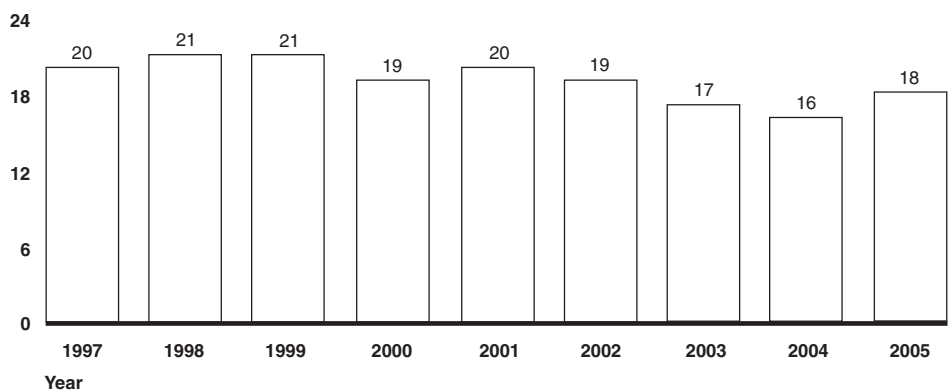
FINANCIAL MANAGEMENT

Improvements Under Way but Serious Financial Systems Problems Persist

What GAO Found

While the number of CFO Act agencies receiving unqualified opinions on their financial statements has increased significantly since 1997, the number of CFO Act agencies that did not substantially comply with FFMIA has remained fairly constant as shown below. Although agencies have made improvements and have other enhancements under way, the systems deficiencies that have prompted unfavorable FFMIA assessments indicate that the financial management systems of many agencies are still not able to routinely produce reliable, useful, and timely financial information. GAO views the continuing lack of compliance with FFMIA and the associated problems with agency financial systems to be significant challenges to improving the management of the federal government.

CFO Act agencies not in compliance



Source: GAO analysis, based on independent auditors' financial statement audit reports prepared by agency inspectors general and contract auditors for fiscal years 1997 through 2005.

For fiscal year 2005, auditors for five agencies provided negative assurance that agency systems substantially complied with FFMIA as allowed by the Office of Management and Budget's (OMB) current audit guidance. This means that nothing came to their attention to indicate that agency financial management systems did not substantially comply with FFMIA requirements. GAO continues to believe that this type of reporting is not sufficient for reporting under the act. In addition, negative assurance may provide the false impression that the auditors are reporting that the agencies' systems are compliant. In contrast, auditors for the Department of Labor (Labor) provided positive assurance, which is an opinion, by reporting that Labor's financial management systems substantially complied with FFMIA requirements—a reporting practice that adds more value. Auditors have expressed concern about providing positive assurance because of the need to clarify the meaning of substantial compliance. In addition, some auditors stated that a change in OMB's guidance that permits negative assurance would be necessary for them to provide an opinion on FFMIA compliance.

To help address financial management systems deficiencies, OMB continues to move ahead on initiatives to enhance financial management in the federal government. Moreover, the continuing leadership and support of Congress will be crucial in reforming financial management in the federal government.